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RUEHLP/AMEMBASSY LA PAZ MAR LIMA 1506
RUEHGL/AMCONSUL GUAYAQUIL 2060

UNCLAS QUITO 000622

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DEPT FOR WHA/AND AND EB/OMA
TREASURY FOR STEPHEN GOOCH

E.O. 12958: N/A

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SUBJECT: Bank Holiday Rumors Provoke Nervousness and Presidential
Rebuttal

Ref: A) Quito 587, B) Quito 556, C) Quito 554

¶1. (SBU) Summary. An unfounded rumor that banks would be closed for a "bank holiday" circulated around Ecuador on March 13 and 14. According to banking contacts, many nervous clients called the banks to ask about the rumor, but actual withdrawals were minimal and not threatening to the banks. President Correa made a special evening televised address to dismiss the rumor and assert that it was being spread by the political opposition. Banking operations were reportedly normal the morning of March 15. End summary.

¶2. (SBU) Consulate Guayaquil first heard of rumors on Tuesday, March 13 from a range of contacts in Guayaquil that there would be a "bank holiday" in Ecuador. Since many Ecuadorians had lost money during a "bank holiday" provoked by the 1999 banking crisis, these contacts had withdrawn funds from their banks. Subsequent conversations with Quito-based banks also support the view that the rumors about a bank holiday originated in Guayaquil.

¶3. (SBU) On Wednesday, March 14 the rumor had become more widespread. Most of the banks we contacted confirmed that they had received numerous calls from clients who were nervous about rumors of a bank holiday or changes in banking regulations. The banks said that they told their customers that Ecuadorian law prohibits any government official from declaring a bank holiday.

¶4. (SBU) The banks we contacted reported that on Wednesday there had been some withdrawals, but the magnitude of the withdrawals was small and did not put any pressure on their banks. One contact said that interbank clearing data from Wednesday evening did not show any danger signals for the system as a whole or any individual banks, and that sector-wide liquidity was three times that which is "necessary." As of Thursday morning, one contact said that his bank was not seeing any signs of nervousness; this was reaffirmed by contacts at the banking association.

¶5. (U) The rumors did take on sufficient force, however, that President Correa made a public statement on March 14 denying that there would be a bank holiday. Correa also asserted that the rumors had been started by the political opposition, namely members of congress whose political rights were stripped by the Supreme Electoral Tribunal (reftels) and fanned through the use of anonymous call centers. Correa also said that the economy is in "excellent health," and the most prosperous part of the economy is the banking sector which enjoyed record profits. Minister of Economy Ricardo Patino also issued a statement on March 14 that there would not be a bank holiday and appeared on morning TV programs on March 15 reiterating the same message.

Comment

¶6. (SBU) We believe that the rumors were unfounded. It is possible that the rumors were promulgated by some group that is opposed to the Correa administration, but we do not know if there are any grounds for Correa's assertion that the defrocked members of congress are behind them.

¶7. (SBU) While the broad banking system is sound, particularly the larger banks which have ample liquid off-shore assets, the rumors spread rapidly through a populace ready to believe there could be a banking crisis. Not only did Ecuador suffer a recent banking crisis, but in the last two months there has been nervousness about the direction of Correa's economic policies. There was a notable drop in demand deposits in the second half of February, although deposits largely recovered in March. Even so, four smaller banks have suffered a more pronounced fall in demand deposits - between 12 to 20 percent, according to data through March 2 (before the rumors spread) - and these banks would be particularly vulnerable to additional nervousness. We believe the banking system is sufficiently strong that it will survive the closure of one or two small banks, but if several small banks failed simultaneously it could put pressure on the larger, healthier banks.

¶7. (SBU) That so many people were spooked by an unfounded rumor will hopefully alert the Correa administration to the importance of public confidence in the banking sector and temper the government's inclination to impose stricter controls over the banks.

Jewell